

AR31

ANNUAL REPORT

For the year ended December 31, 1977

***BLACK HAWK
MINING LTD.***

(No Personal Liability)



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BLACK HAWK MINING LTD.

(No Personal Liability)

AND ITS WHOLLY-OWNED SUBSIDIARY

Officers

W. Noel O'Brien	-	-	-	-	-	-	-	-	-	-	President
John S. Grant, Q.C.	-	-	-	-	-	-	-	-	-	-	Vice-President
A. F. Risso	-	-	-	-	-	-	-	-	-	-	Secretary-Treasurer
D. C. Marshall	-	-	-	-	-	-	-	-	-	-	Assistant Secretary-Treasurer

Directors

John S. Grant, Q.C.	-	-	-	-	-	-	-	-	-	-	Toronto
J. M. Kirschbaum, LL.D., Ph.D.	-	-	-	-	-	-	-	-	-	-	Toronto
John Kostuik, B.Sc.	-	-	-	-	-	-	-	-	-	-	Toronto
W. Noel O'Brien, P.Eng.	-	-	-	-	-	-	-	-	-	-	Toronto
A. F. Risso	-	-	-	-	-	-	-	-	-	-	Toronto

Head Office

Suite 930
Royal Bank Canada Building
1 Place Ville Marie
Montreal, Quebec

Executive Offices

Suite 3900
South Tower
Royal Bank Plaza
Toronto, Ontario
M5J 2K2

Transfer Agent

Guaranty Trust Company of Canada
Toronto, Ontario
Montreal, Quebec

Auditors

Starkman, Kraft, Rothman,
Berger & Grill
Toronto, Ontario

Solicitors

Manley, Grant & Camisso
Toronto, Ontario

Bankers

The Royal Bank of Canada
Toronto, Ontario

Black Hawk Corporation

**a wholly-owned subsidiary of Black Hawk Mining Ltd.
incorporated in the State of Maine, U.S.A.**

Directors and Officers

W. Noel O'Brien, P.Eng., President	-	-	-	-	-	-	-	-	-	Toronto
A. F. Risso	-	-	-	-	-	-	-	-	-	Toronto
D. C. Marshall, Treasurer	-	-	-	-	-	-	-	-	-	Toronto
J. M. Kirschbaum, LL.D., Ph.D.	-	-	-	-	-	-	-	-	-	Toronto
Harris L. McLean, Jr.	-	-	-	-	-	-	-	-	-	Ellsworth, Maine
Kenneth W. Blaisdell, Clerk	-	-	-	-	-	-	-	-	-	Ellsworth, Maine
John S. Grant, Q.C.	-	-	-	-	-	-	-	-	-	Toronto

HEAD OFFICE: 210 Main Street, Ellsworth, Maine **EXECUTIVE OFFICES:** Royal Bank Plaza, Toronto, Ontario

BLACK HAWK MINING LTD.

(No Personal Liability)

AND ITS WHOLLY-OWNED SUBSIDIARY BLACK HAWK CORPORATION

Directors' Report

In the fifth year of operation it became necessary to suspend operations at the Blue Hill mine in Maine. The mine has been operated by Kerramerican, Inc. on behalf of the joint venture as to 60 per cent interest and Black Hawk, through Black Hawk Corporation, as to 40 per cent interest.

As previously reported to shareholders the mine suspended operations in mid-October, 1978, due to deteriorating prices and markets for zinc and copper. Over-production of these metals by foreign countries, the lagging world economy and a slump in metals consumption were the principal factors in making it uneconomic to continue operations.

The mine has been placed on a care-and-maintenance basis and management cooperated in efforts and arrangements for other employment for the work force. Black Hawk, at closing, held substantial inventories of zinc concentrates which are being shipped on a regular basis to the smelter. It is expected that all shipments will have been completed by mid-1978.

No reserves in the main zones or the Carlton zone can be considered mineable in the present circumstances.

Operating income in 1977, before amortization and interest cost was \$101,386 compared with \$75,562 in 1976. After amortization and interest costs loss for the year was \$612,465 compared with \$2,057,426 after extraordinary items in 1976.

No activity at the mine is foreseen in 1978, except for care-and-maintenance requirements.

On behalf of the Board of Directors,

Noel O'Brien

President.

Toronto, Canada,
March 22, 1978.

OPERATING RESULTS

		<u>1977</u>	<u>1976</u>
Tons milled		144,964	176,100
Grades (mill feed)	— zinc	5.66%	5.1%
	— copper	1.15%	1.2%
Metals (in concentrates)	— zinc	15,472,000 lbs.	16,700,000 lbs.
	— copper	2,503,000 lbs.	3,640,000 lbs.

BLACK HAWK

(No Personal Liability)
AND ITS WHOLLY OWNED SUBSIDIARIES
Black Hawk Mining Ltd.

Consolidated

ASSETS

	As at December 31	
	1977	1976
Current		
Cash	\$ 8,272	\$ 58,946
Term deposits	393,000	230,000
Smelter settlements receivable, at estimated net realizable value	139,990	257,883
Concentrates on hand, at lower of cost or net realizable value	624,827	877,087
Due from Joint Venture Partner — Kerr American, Inc.	19,948	—
	<u>1,186,037</u>	<u>1,423,916</u>
Interest in Blue Hill Joint Venture (Note 1)	4,083,196	4,077,526
Less: Accumulated amortization	3,929,150	3,627,526
	<u>154,046</u>	<u>450,000</u>
Other		
Furniture and fixtures, at nominal value	—	1
Organization expenses, at cost	5,441	5,441
	<u>5,441</u>	<u>5,442</u>

Approved on behalf of the Board:

W. NOEL O'BRIEN, Director.

A. F. RISSO, Director.

See accompanying notes to financial statements.

\$1,345,524 \$1,879,358

AUDITOR'S REPORT

To the Shareholders of Black Hawk Mining Ltd. (No Personal Liability)

We have examined the consolidated balance sheet of Black Hawk Mining Ltd. at December 31, 1977 and the consolidated statements of operations and deficit in accordance with generally accepted auditing standards, and accordingly included such findings in our report.

As outlined in Note 1, the subsidiary's Blue Hill mine has been placed on standstill and zinc ores. The realization of the companies' interest in the Blue Hill Joint Venture is dependent upon the recovery of the mine.

In our opinion, subject to the recovery, as stated above, of the companies' interest in the financial position of the companies as at December 31, 1977 and the results of operations for the year ended December 31, 1977, the consolidated financial statements are in accordance with generally accepted accounting principles applied on a basis consistent with the practices of the companies.

Toronto, Ontario,
January 6, 1978.

K MINING LTD.

Liability)

OWNED SUBSIDIARY

Corporation

Balance Sheet

LIABILITIES

	As at December 31	
	1977	1976
Current		
Accounts payable and accrued charges	\$ 44,100	\$ 36,150
Due to joint venture partner, Kerramerican, Inc.	—	19,445
Advances and accrued interest (Note 4)	443,508	591,236
	<u>487,608</u>	<u>646,831</u>
Long-Term Debt (Note 2)		
6½ % Series "A" Debentures	1,965,000	1,965,000
Accrued interest on debentures	2,444,187	2,206,333
	<u>4,409,187</u>	<u>4,171,333</u>
Total Liabilities	<u>4,896,795</u>	<u>4,818,164</u>

CAPITAL DEFICIENCY

Capital (Note 5)		
Authorized		
5,000,000 shares, par value \$1 each		
Issued		
1,200,000 shares for mining claims	1,200,000	1,200,000
400,000 shares for acquisition of wholly-owned subsidiary ..	400,000	400,000
2,719,009 shares for cash	2,719,009	2,719,009
4,319,009 shares	4,319,009	4,319,009
Less: Discount thereon	3,720,185	3,720,185
	<u>598,824</u>	<u>598,824</u>
Deficit	<u>(4,150,095)</u>	<u>(3,537,630)</u>
	<u>(3,551,271)</u>	<u>(2,938,806)</u>
	<u>\$1,345,524</u>	<u>\$1,879,358</u>

REPORT

No Personal Liability) and its wholly-owned subsidiary Black Hawk Corporation as changes in financial position for the year then ended. Our examination was made in accordance with the standards of the Institute of Certified Public Accountants and other procedures as we considered necessary in the circumstances. Until economic and other conditions are more favourable for the production of copper, the total cost of the mine, including the cost of the mine, is estimated to be \$154,046 is dependant upon the continued operation of the mine. In the Blue Hill Joint Venture, these consolidated financial statements present fairly the financial position, results of operations and the changes in their financial position for the year then ended, in accordance with that of the preceding year.

STARKMAN, KRAFT, ROTHMAN, BERGER & GRILL,
Chartered Accountants.

BLACK HAWK MINING LTD.

(No Personal Liability)

AND ITS WHOLLY-OWNED SUBSIDIARY BLACK HAWK CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

	Year Ended December 31	
	1977	1976
Revenue from Metal Sales	\$2,853,546	\$3,148,263
Expenses		
Cost of sales	2,739,205	3,043,545
Administration	12,955	29,156
	<u>2,752,160</u>	<u>3,072,701</u>
Operating Income Before the Undernoted Items	101,386	75,562
Other Expenses		
Mine closing costs	122,101	—
Amortization of interest in Blue Hill Joint Venture (Note 3)	301,624	910,526
Interest on debentures	237,854	229,606
Interest — other	52,272	67,014
	<u>713,851</u>	<u>1,207,146</u>
Loss for the Year Before Extraordinary Items	612,465	1,131,584
Write-down of interest in Blue Hill Joint Venture (Note 1)	—	(819,000)
Write-off of deferred expenses (Note 1)	—	(106,842)
	<u>612,465</u>	<u>2,057,426</u>
Loss for the Year	612,465	2,057,426
Deficit, beginning of year	3,537,630	1,480,204
Deficit, end of year	<u>\$4,150,095</u>	<u>\$3,537,630</u>
Loss per Share Before Extraordinary Item	14.1¢	26.2¢
Loss per Share	<u>14.1¢</u>	<u>47.6¢</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31	
	1977	1976
Source of Working Capital		
From Operations		
Loss for the year	\$ (612,465)	\$(2,057,426)
Less: Items not involving a current outlay:		
Amortization of interest in Blue Hill Joint Venture ..	301,624	910,526
Interest on debentures	237,854	229,606
Write-down of interest in Blue Hill Joint Venture ...	—	819,000
Write-off of deferred expenses	—	106,842
Write-off of fixed assets	1	—
	<u>(72,986)</u>	<u>8,548</u>
Application of Working Capital		
Share of joint venture fixed asset expenditures (recovery)	5,670	(8,643)
	<u>5,670</u>	<u>(8,643)</u>
Increase (Decrease) in Working Capital	(78,656)	17,191
Working Capital, beginning of year	777,085	759,894
Working Capital, end of year	<u>\$ 698,429</u>	<u>\$ 777,085</u>

See accompanying notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1977

1. Pursuant to an agreement dated September 1, 1970 (and subsequently amended), a joint venture in which the company's wholly-owned subsidiary has a 40% interest has been formed with Kerr-American, Inc. (a subsidiary of Kerr Addison Mines Limited) as at November 3, 1972 to explore, develop and work the subsidiary's properties in Blue Hill, Maine.

The subsidiary has contributed to such joint venture all its mining properties, buildings, equipment and supplies in Maine. The cost of the company's investment in the joint venture is its cost of the properties including deferred expenses as follows:

	1977	1976
Mining properties, buildings and equipment	\$1,234,009	\$1,228,339
Deferred exploration and development expenses	1,902,677	1,902,677
Deferred administrative expenses	1,765,510	1,765,510
	4,902,196	4,896,526
Less: Write-down to estimated net realizable value	819,000	819,000
	<u>\$4,083,196</u>	<u>\$4,077,526</u>

Mining operations were suspended in October, 1977 and the mine placed on standby. Based on current market metal prices the remaining reserves in the main zones are not economic. Because of these market conditions the mineralization in the Carlton zone are not economic for development at this time.

The company's interest in the Blue Hill Joint Venture has been written down to reflect the anticipated loss should the Joint Venture decide not to develop the Carlton zone. The deferred expenses have been written off as they are not expected to be recovered.

2. (a) Under the provisions of the Trust Indenture dated July 15, 1965, securing the Debentures Series "A":
- (i) \$5,000,000 6½ % Debentures Series "A" have been authorized maturing June 30, 1974 (payment of which has been deferred as outlined in Note 6);
 - (ii) The company is required to make sinking fund payments on or before April 15 in each year equal to the consolidated net cash flow from operations (as defined) in the preceding twelve month period ending December 31;
 - (iii) The company and any subsidiary may not pay any dividends or make any other distributions on shares without the prior written consent of the debentures holders.
- (b) In accordance with an agreement dated August 7, 1964:
- (i) Denison Mines Limited (Denison) has purchased \$2,735,000 6½ % Debentures Series "A" and 150,000 shares of the capital stock of the company (valued at \$62,500) for a cash consideration of \$2,666,625, of which \$770,000 has been repaid;

BLACK HAWK MINING LTD.

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(ii) If Denison determines that further work is required on the company's mining lands then Denison agrees to provide the financing therefore through purchase of debentures and shares of the company on the terms and conditions set out in the said agreement.

(c) Interest on the 6½ % Debentures due June 30, 1974 is in arrears from January 1, 1967, in the amount of \$2,444,187. The Trust Indenture under which the Debentures were issued provides that the security constituted thereunder becomes enforceable on the happening of certain events of default as therein defined. One of these is default in the making of payment of any interest due and continuation of such default for 15 days after written notice thereof. Such notice has not been given by the Trustee. All of the issued Debentures are held by the major shareholder of the company, Denison Mines Limited.

(d) Denison has agreed not to enforce the charges contained in the Trust Indenture during the term of the agreement referred to in Note 1. However, the company will use the proceeds of all monies received from production of the properties to repay the debentures, accrued interest and advances from Denison.

3. The subsidiary was acquired during the year ended April 30, 1965 and the consolidated figures as at December 31, 1977 include the exploration and development expenses and corporate expense of the subsidiary, prior to acquisition.

The assets and liabilities of the subsidiary company incurred subsequent to the formation of the joint venture with Kerramerican, Inc. have been translated into Canadian dollars at par. Previously, current assets and liabilities were converted at par and long-term assets and liabilities at the rate current at date of expenditure.

The company amortizes the costs of its interest in the Blue Hill Joint Venture on a unit of production basis as ore is recovered from the mine.

4. Denison has advanced funds to the subsidiary, bearing interest at the rate of 2% above a Canadian chartered bank prime interest rate, which loan is secured by the smelter settlements receivable and inventory of concentrates on hand. At December 31, 1977, the subsidiary was indebted in the amount of \$432,708 including interest incurred to date.

5. The company has reserved 100,000 treasury shares for incentive options exercisable at \$1 per share on dates to be determined by the company. Options were granted on 92,500 shares of which 30,000 shares were exercised in a prior year and 47,500 shares were forfeited.

6. For United States federal income tax purposes the subsidiary has elected to defer exploration and development expenditures incurred in prior years and to deduct such expenses ratably as the minerals or ores benefited are sold.

